



# Royalty Pharma (RPRX)

Updated August 24<sup>th</sup>, 2023, by Yiannis Zourmpanos

## Key Metrics

<b>Current Price:</b>	\$29.6	<b>5 Year CAGR Estimate:</b>	9.1%	<b>Market Cap:</b>	\$18 B
<b>Fair Value Price:</b>	\$29.1	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	11/17/203
<b>% Fair Value:</b>	102%	<b>5 Year Valuation Multiple Estimate:</b>	-0.4%	<b>Dividend Payment Date:</b>	12/15/2023
<b>Dividend Yield:</b>	2.7%	<b>5 Year Price Target</b>	\$41	<b>Years Of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

Royalty Pharma (RPRX) is a company that buys biopharmaceutical royalties and funds innovations in the biopharmaceutical industry. Royalty Pharma was founded in 1996, and the company had its initial public offering in June of 2020. Royalty Pharma's portfolio consists of royalties on approximately 35 marketed therapies and 10 development-stage product candidates that address various therapeutic areas, such as rare diseases, cancer, neurology, infectious disease, hematology, and diabetes. The company has a total of 14 billion-dollar therapies in its portfolio, and across the portfolio, the average royalty duration is 13 years. While some investors might be concerned that almost 30% of the company's royalty revenue comes from its Vertex CF franchisee, Vertex is the strongest competitor in its market, far ahead of its closest competitor. This concentration in Vertex CF appears to be a good way for the company to capitalize on strong assets.

On August 8<sup>th</sup>, 2023, Royalty Pharma reported Q2 2023 results for the period ending June 30<sup>th</sup>, 2023. The company saw adjusted earnings-per-share of \$0.84, beating analysts' estimates by \$0.04. Revenue increased 0.4% year-over-year to \$538 million beating analysts' estimates by \$1.41 million. Management raised the guidance for adjusted cash receipts from \$2.85-\$2.95 billion to \$2.90-\$2.975 billion for the fiscal year 2023.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	---	---	---	---	---	---	---	\$1.32	\$1.49	\$0.10	<b>\$4.15</b>	<b>\$5.82</b>
<b>DPS</b>	---	---	---	---	---	---	---	\$0.30	\$0.68	\$0.76	<b>\$0.80</b>	<b>\$1.18</b>
<b>Shares</b>	---	---	---	---	---	---	---	375	415	438	<b>474</b>	<b>699</b>

Since Royalty Pharma went public in June of 2020, the stock has only traded for 3 years, so results are only available for 2020, 2021 and 2022. In 2023, we expect Royalty Pharma to deliver about \$4.15 in earnings-per-share being the midpoint of analysts' estimates. We forecast that earnings-per-share will grow at a rate of about 7% annually over the next 5 years, guiding our 2028 earnings-per-share estimate of around \$5.82.

From 2020 to 2021, the dividend payment grew 126.7%, which is obviously unsustainable, but in 2022 grew by only 12%. Going forward, we forecast a more normalized dividend growth rate, with dividends growing at 8% annually over the next 5 years. We expect 8% dividend growth, because this will be slightly above the company's forecasted earnings-per-share growth rate, and we think the company will grow the dividend more aggressively.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Avg. P/E</b>	---	---	---	---	---	---	---	32.7	26.6	384.2	<b>7.1</b>	<b>7.0</b>
<b>Avg. Yld.</b>	---	---	---	---	---	---	---	0.8%	1.7%	2.0%	<b>2.7%</b>	<b>2.9%</b>

With limited trading history, it's difficult to use historic P/E multiples or dividend yields to estimate the stock's appropriate valuation multiples. However, considering the regulatory hurdles, the unpredictable nature of the business

<sup>1</sup> Estimated Date.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Royalty Pharma (RPRX)

Updated August 24<sup>th</sup>, 2023, by Yiannis Zourmpanos

and the reliance on FDA approvals, we estimate that a 7.0x P/E ratio is fair for the business. Today, the stock offers a 2.7% dividend yield, which is moderate for investors who prioritize dividend income, but investors might consider the stock if they like the business model of buying biopharmaceutical royalties.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022	2027
Payout	---	---	---	---	---	---	---	23%	46%	N/A	22%	26%

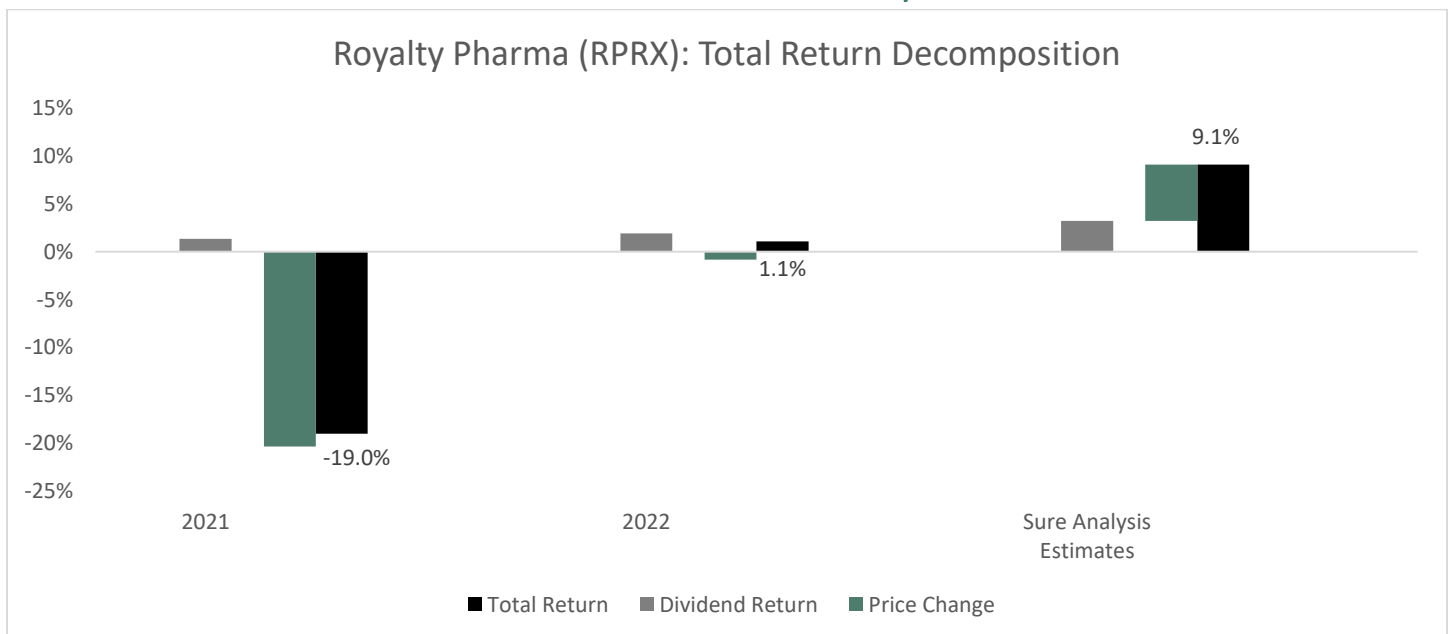
Royalty Pharma plc (RPRX) boasts a distinctive competitive advantage in the pharmaceutical industry as a leader in acquiring revenue-generating intellectual property related to drugs. This unique business model allows the company to generate consistent cash flows even during economic downturns, showcasing a resilient recession performance. Additionally, RPRX maintains a prudent approach to debt management, utilizing its robust cash flows to efficiently handle debt obligations and fund future acquisitions, contributing to its financial stability. Favorably, in March 2023, the company announced a multi-year \$1 billion share repurchase plan, with nearly 6 million shares already purchased, spending a total of about \$185 million.

Going forward, we expect Royalty Pharma to have about a 26% payout ratio. We project that the dividend will be safe since the low payout ratio signifies that the dividend is adequately backed by strong earnings-per-share. Royalty Pharma has a strong balance sheet; we see no liquidity or solvency risks with this company. We think the business has some recession resiliency because they earn revenue from royalties on drug sales. In a simplistic way, we think that people will always need drugs. Additionally, we think the company has a competitive advantage as a leading biopharmaceutical royalty holder.

## Final Thoughts & Recommendation

Royalty Pharma is a business that buys and holds biopharmaceutical royalties. By investing in strong royalties, Royalty Pharma has the chance to position itself as a leader in niche markets. However, the hold rating is premised upon the 9.1% annualized total returns over the medium-term, with the forecasted earnings-per-share growth of 7.0% and the 2.7% dividend yield.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Royalty Pharma (RPRX)

Updated August 24<sup>th</sup>, 2023, by Yiannis Zourmpanos

## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue					1,598	1,795	1,814	2,122	2,289	2,237
SG&A Exp.					106	62	103	182	183	227
D&A Exp.					33	33	24	23	23	6
Operating Profit					940	1,364	2,623	1,660	1,431	923
Op. Margin					58.8%	76.0%	145%	78.2%	62.5%	41.3%
Net Profit					1,210	1,378	2,349	975	620	43
Net Margin					75.7%	76.8%	129%	45.9%	27.1%	1.9%
Free Cash Flow					1,418	1,618	1,667	2,035	2,018	2,144
Income Tax					-	-	-	-	-	-

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets						11,370	12,450	16,020	17,516	16,813
Cash & Equivalents						1,924	246	1,009	1,541	1,711
Goodwill & Int.						76	52	29	6	-
Total Liabilities						6,818	6,308	6,124	7,267	7,288
Accounts Payable						4	11	11	6	8
Long-Term Debt						6,519	6,238	5,817	7,096	7,116
Total Equity						4,488	6,106	4,819	5,777	5,628
LTD/E Ratio						1.45	1.02	1.21	1.23	1.26

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets							19.7%	6.8%	3.7%	0.2%
Return on Equity							44.3%	17.9%	11.7%	0.8%
ROIC							20.0%	6.9%	3.7%	0.3%
Shares Out.								375	415	438
Revenue/Share					4.51	5.07	5.12	5.65	5.52	5.11
FCF/Share					4.00	4.57	4.71	5.42	4.86	4.90

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.